

Message Text

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ACTION XMB-04

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SUBJECT: MAJOR PROJECTS: AFSIN-ELBISTAN PROJECT-FOSTER

WHEELER APPLICATION FOR EXIM BANK FINANCING

REF: ANKARA 1214

1. THE AFSIN-ELBISTAN INTEGRATED LIGNITE MINING AND POWER GENERATING PROJECT IS ONE OF LARGEST AND MOST IMPORTANT CURRENT INFRASTRUCTURE PROJECTS IN TURKEY. PROJECT WILL PRODUCE ANNUALLY OVER 20 MILLION TONS LIGNITE FOR FUEL FOR 4 X 300 MW ELECTRICITY GENERATING PLANT. PROJECT COSTS ESTIMATED AT OVER \$1 BILLION. MOST OF BASIC COMPONENT REQUIREMENTS FOR MINING AND POWER SECTORS OF PROJECT HAVE BEEN OR ARE BEING CONTRACTED FOR. TOTAL FINANCING PACKAGE NOT REPEAT NOT YET COMPLETE BUT SUBSTANTIAL FOREIGN EXCHANGE SOURCES ALREADY IDENTIFIED. THESE INCLUDE \$148 MILLION FROM IBRD; \$173 MILLION GERMAN GOVT.; \$60 MILLION GERMAN COMMERCIAL BANKS; \$92 MILLION EIB; \$40 MILLION FRENCH GOVT.; AND \$15 MILLION FROM ITALIAN GOVT. OTHER GOVERNMENT LOANS AND SUPPLIERS CREDITS WILL BE SOLICITED AND WILL PLAY IMPORTANT ROLE IN SUCCESSFUL COMPLETION THIS PROJECT. GOT HAS NOT YET DRAWN DOWN ANY OF IBRD OR GERMAN LOANS AND ONLY PARTIALLY FRENCH AND ITALIAN LOANS. GOT HAS EXPENDED APPROX. \$40 MILLION OF ITS FOREIGN EXCHANGE IN ADVANCED PAYMENTS.

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2. IN VIEW OF TURKEY'S EXPANDING ECONOMIC DEVELOPMENT AND PROJECTED LARGE ENERGY REQUIREMENTS, THIS PROJECT, WITHOUT QUESTION, CONSTITUTES TURKEY'S SINGLE MOST IMPORTANT INFRASTRUCTURE PROJECT IN ITS CURRENT DEVELOPMENT PLANS. TURKISH ELECTRICITY AUTHORITY (TEK) PROJECT MANAGER TOLD EMBASSY THAT TURKEY HAS NO REPEAT NO ALTERNATIVE TO REPLACE THIS PROJECT AS SOURCE OF ENERGY FOR THE YEARS 1978 THROUGH 1981. GOT MUST PUSH AHEAD WITH THIS PROJECT.

3. WE UNDERSTAND THAT EXIM BANK HAS BEEN APPROACHED ON MANY OCCASIONS FOR FINANCIAL PARTICIPATION IN CONNECTION WITH EFFORTS OF U.S. FIRMS TO WIN A SLICE OF THIS PROJECT. HOWEVER, EXIM BANK HAS APPARENTLY NOT BEEN PREPARED TO ISSUE COMMITMENT FOR FINANCING, EMBASSY HAS CONSISTENTLY SUPPORTED U.S. FIRMS EFFORTS TO WIN CONTRACTS IN THIS PROJECT. BECAUSE OF GOT'S INSISTENCE THAT ASSURANCES OF ACCEPTABLE (PREFERABLY GOVERNMENT-TO-GOVERNEMENT) CREDITS ACCOMPANY BIDS, U. S. FIRMS HAVE THUS FAR NOT BEEN COMPETITIVE THEY HAVE LOST OUT TO SUPPLIERS FROM OTHER COUNTRIES WHOSE GOVERNMENTS HAVE MADE FAVORABLE LOANS AVAILABLE.

4. USA ONCE MORE HAS OPPORTUNITY TO BACKSTOP EFFORT OF U.S. FIRM TO WIN PERHAPS THE MOST LUCRATIVE CONTRACT RELATED TO POWER SECTOR OF AFSIN-ELBISTAN PROJECT. THIS IS CONTRACT FOR SERVICES OF GENERAL CONTRACTOR, WITH FOREIGN EXCHANGE VALUE APPROX. \$90 MILLION, INCLUDING RESPONSIBILITY FOR DESIGN, ORDER, TRANSPORTATION AND ERECTION OF ALL MATERIAL TO BE SUPPLIED BY GENERAL CONTRACTOR AS WELL AS SUPERVISION AND ERECTION ALL OTHER COMPONENTS OF PLANT.

5. IN RESPONSE TO INVITATION FOR PREQUALIFICATION, OVER 55 APPLICATIONS FROM ENGINEERING FIRMS WERE RECEIVED BY THE BUYER (TEK) WHICH SHORT LISTED SEVEN FOREIGN FIRMS INCLUDING FIVE AMERICAN. EVENTUALLY ONLY ONE FIRM FOSTER WHEELER ENERGY CORPORATION, 1701 PENNSYLVANIA ANENUE, N.W., WASHINGTON, D.C. 20006 (TEL: (202) 298-7750), SUBMITTED BID AND WAS INVITED TO NEGOTIATE A CONTRACT WITH TEK. IN LATTER PART OF JANUARY DURING PRELIMINARY NEGOTIATIONS FOSTER WHEELER REP WAS CLEARLY TOLD THAT ESSENTIAL ELEMENT IN FOSTER WHEELER BID MUST BE ASSURANCE OF FAVORABLE FINANCING. TOTAL OF \$52 MILLION OF THE IBRD AND GERMAN LOANS HAVE BEEN EARMARKED FOR THE GENERAL CONTRACTOR. IN SPITE OF THIS IT IS ESTIMATED THAT THERE REMAINS A GAP OF ABOUT \$40 MILLION FOR WHI LIMITED OFFICIAL USE

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THE GENERAL CONTRACTOR MUST FIND FINANCING. TEK IS MOST FAVORABLY INCLINED TO AND HAS ALWAYS CONTEMPLATED USING A U.S. FIRM FOR THIS PROJECT AND WOULD LIKE TO WORK WITH FOSTER WHEELER. BUT TEK OFFICIALS ALSO REALIZE THAT IT IS NOT POSSIBLE FOR PROJECT THIS SIZE TO MEET FOREIGN EXCHANGE COSTS ENTIRELY FROM GOT RESOURCES.

6. GENERAL CONTRACTORS SERVICES INCLUDES: COORDINATION OF

VARIOUS FOREIGN CONTRACTORS SUPPLYING EQUIPMENT FOR POWER PLANT; RESPONSIBILITY FOR EQUIPMENT TRANSPORTATION FROM TURKISH PORT TO WORK SITE; ERECTION OR INSTALLATION OF ENTIRE PLANT UNDER GENERAL SUPERVISION OF SPECIFIC SUPPLIERS; COORDINATION PROCUREMENT OF ALL OTHER NON-CONTRACTED SUPPLIES AND EQUIPMENT (APPROX. \$50 MILLIONS WORTH OF WHICH COULD COME FROM THE USA); RESPONSIBILITY FOR PRIOR TEST RUNS OF POWER PLANT AND FIRST OPERATION UNTIL TURNOVER TO OWNER.

7. TEK PROJECT MANGER STATED THAT IF EXIM BANK FINANCING IS AVAILABLE FOR THE GENERAL CONTRACTOR THEN IT IS PRACTICALLY ASSURED THAT FOSTER WHEELER WILL BE GIVEN CONTRACT (ALTHOUGH TEK OFFICIALS CAN NOT REPEAT NOT AT THIS STAGE GIVE FIRM GUARANTEE THAT THIS WILL BE SO).

8. EMBASSY REQUESTS THAT EXIM BANK GIVE MOST CAREFUL CONSIDERATION TO REQUEST BY FOSTER WHEELER FOR EXIMBANK PARTICIPATION IN FINANCING THIS CONTRACT.
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